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RUEHUL/AMEMBASSY SEOUL PRIORITY 0030  
RUEHDE/AMCONSUL DUBAI PRIORITY 0037  
RUEHRL/AMEMBASSY BERLIN PRIORITY 0061  
RUEHVI/AMEMBASSY VIENNA PRIORITY 0010  
RUEHII/VIENNA IAEA POSTS COLLECTIVE  
RUEHIT/AMCONSUL ISTANBUL PRIORITY 0010  
RUEHAK/AMEMBASSY ANKARA PRIORITY 0011

C O N F I D E N T I A L SECTION 01 OF 04 MUMBAI 000311

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TREASURY FOR OFAC  
LONDON FOR GAYLE; BERLIN FOR PAETZOLD; BAKU FOR MCCRENSKY;  
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IN  
SUBJECT: MUMBAI BUSINESSES FINDING NEW MECHANISMS FOR TRADE WITH  
IRAN

REF: A. MUMBAI 000272  
[1](#)B. 2007 COLOMBO 000676

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CLASSIFIED BY: Michael Newbill, Consul for Economic and  
Political Affairs, Pol/Econ, State.  
REASON: 1.4 (e)

[1](#)1. (C) Summary: While large Indian conglomerates are wary of investing in Iran, Mumbai's small and medium size trade companies continue to do business with their Iranian counterparts, explaining the 42 percent increase in India's non-petroleum and non-crude oil trade with Iran in the last year. In the month of June, ConGenOff met with a wide array of business owners in Mumbai (India's commercial center) who trade with Iran and participate in numerous trade delegations sponsored by trade associations in both countries. Discussions with these contacts reveal that even in light of sanctions against Iran, and the stigma it carries, Mumbai businesses are still exploring new bilateral trade opportunities with Iran. Moreover, members of Mumbai's business community are finding new mechanisms to side step obstacles, such as finding third parties like South Korean banks, to absorb the risk of Iranian letters of credit. End Summary.

NON-PETROLEUM TRADE BETWEEN INDIA AND IRAN ON THE RISE

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[1](#)2. (SBU) Figures from India's Export Import Data Bank indicate that Indo-Iranian trade in key industries (not including petroleum products and crude oil) has already increased by 42 percent in just the last year. From 2007-2008, India's exports to Iran increased 34 percent, with goods such as black tea, coffee, black pepper, basmati rice, textiles, office supplies (stationary), pharmaceuticals such as antibiotics, sugar, machinery for manufacturing fiber pulp, parts of central heating boilers, yellow fin tuna, and bird's eggs experiencing the most growth. Imports from Iran during the same time period increased

43 percent, including the largest increases in paper board, finishing agents, animal hides, carpets, ores, drinking glasses, fruit juices, gifts and almonds. A number of trade forecasters predict trade with Iran will triple within the next five years although it currently remains a small share of India's total trade (3.1 percent).

13. (SBU) According to a number of business owners in Mumbai, the demand for Iranian goods is strong, despite rising costs which could impact market share. There are some goods, however, which continue to be in high demand on the Indian economy no matter what the cost. For instance, in discussion with various nut and dried fruit vendors, the price of "Mamra Almonds," also known as Iranian almonds, has skyrocketed in the last six months, due to inflation in Iran. However, while American and Afghani almonds, and even some domestic varieties are gaining popularity, the Indian demand for the Iranian almonds continue to rise due to a cultural belief that they help in the development of children's brains, more so than other almonds. From 2007-2008 the total import of almonds into India actually fell 35 percent, but the share of Iranian almonds in the market rose from 21 percent to 33 percent according to the Export Import Data Bank.

14. (C) According to Rais Shaikh (please protect), who returned from a trip to Iran in June 2009 (Ref A), the Commercial Attache at the Iranian Consulate in Mumbai has a strong presence in the business community, also contributing to increased trade relations. Shaikh, a successful businessman in Mumbai, told ConGenOff that he is especially impressed with the work and organization of the Commercial Attache in Mumbai, whom he had not expected to be so orderly and efficient. The Commercial Attache pointed Shaikh to new manufacturers of "float glass" in Iran, which he plans to import for clients in Mumbai. He said float glass is increasingly being used in Mumbai for the glass exterior of buildings, which is hard to find in India.

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TALES FROM A TRADE DELEGATION TO IRAN

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15. (C) On June 10, ConGenOff met with Vijay Kalantri (please protect), President of the All India Association of Industries (AIAI) and Director of Mumbai's World Trade Centers' Association, who has hosted Iranian trade delegations for the last 10 years. Kalantri led a trade delegation to Iran on May 16-30, 2008 and met with key ministries and organizations, including the Chamber of Iran Commerce Industries and Mines (sic), the Privatization Organization of Iran, Khodro (an automobile company), and the Trade Promotion Organization. Their trip followed the visit of a trade delegation from Iran to Mumbai in March 2008. Kalantri said that their exchanges helped in the November 2008 signing of agreements and memoranda of understanding (MOU) between Iran and India. These agreements included a working plan on agriculture, a sister port arrangement between Shahid Rashid Port in Iran and Jawaharlal Nehru Port Trust near Mumbai, and an MOU between India's trade Promotion Organization and the Iranian International Exhibition Company.

16. (SBU) Kalantri described the new areas of cooperation his organization had identified with Iran including banking, civil aviation, mining, film production, information technology, animation and entertainment, pharmaceuticals, detergent, and edible oils. Kalantri confirmed to ConGenOff that while large

industrial investors like Essar and the Hinduja group are obviously interested in Iran for energy and oil ventures, Indian importers are increasingly interested in a wide array of Iranian goods from nuts and saffron, to metal ores and industrial wax. There is also a growing Iranian interest in Indian exports, including machinery, pharmaceuticals, basmati rice, and rubber products. He said that a key industry where India and Iran can explore cooperation is in the automotive sector; their visit to the Iran Khodro Company provided useful insights into "the excellence in automotive manufacturing in Iran," he added. He also said that Indian companies are increasingly interested in cement, juices, bitumen, and fertilizer. He noted that the new port cooperation MOU illustrates the promising prospects in cooperation in transport and shipping. In Kalantri's opinion, however, trade mechanisms between Iran and India must be formalized in order for trade between the two countries to fulfill its potential.

#### MUMBAI AND IRANIAN BUSINESSES FIND WAYS AROUND TRADE OBSTACLES

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17. (C) While most large companies and conglomerates deny investing or importing oil and other petroleum products from Iran, other import and export companies in both India and Iran have found financing mechanisms to work around sanctioning policies on financial transactions, including servicing transactions through Dubai, the Asian Clearing Union, and South Korean banks that absorb the risk of Iranian letters of credit.

18. (C) LETTERS OF CREDIT: According to Shaikh and other businessmen who returned from a recent trip to Iran (Ref A) the inability to secure a letter of credit (LoC) from Iranian companies and their banks is a major obstacle faced by Indian traders. In 2007, the State Bank of India (SBI) announced that

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it would no longer negotiate LoCs opened by Iranian banks. The most common practice, according to anecdotal information from ConGenOff business contacts, is to work with Iranian companies who process all transactions through banks and companies in Dubai; however, this cannot be done in U.S. dollars. In 2007, Indian exporters, such as exporters of teas, were able to approach the Export Credit Guarantee Corporation (ECGC) of India, which provided insurance coverage to exports on credit terms in order to continue its mission of promoting Indian exports. However, this practice ended in 2008 due to pressure from SBI.

19. (C) SOUTH KOREAN BANKS: Shaikh told ConGenOff that South Korean banks (no specific names given) are now supporting a new mechanism for financing transactions with Iran. According to Shaikh, since Indian banks will not honor LoCs from Iranian banks for trade finance, some Iranian traders have devised an alternative route in which South Korean banks act as third-party financial intermediaries between Iranian banks and traders and Indian banks. For instance with Indian exports to Iran, a South Korean bank would issue a non-USD denominated guarantee based on an Iranian-origin LoC, allowing an Indian bank to pay the Indian supplier for the goods received even though the Iranian buyer has not remitted funds. The South Korean bank then charges the Iranian buyer 6-8 percent for the "loan," which is lower than the current Iranian lending rate, which is 12 percent or 24 percent on the black market. South Korean banks, able to guarantee these LoCs for 365 days, enable Iranian entities to use that money to finance their projects instead of borrowing money from Iranian banks at a higher interest rate. SBI will accept these LoCs backed by the South Korean bank guarantee (as

long as it is not in USD). The South Korean banks profit after the loan is paid back.

¶10. (SBU) ASIAN CLEARING UNION: Kalantri said in his report on his trip to Iran that he addressed the constraints in banking and financial transactions with his Iranian counterparts. He said that a large part of the export payment realization from Iran is done under the Asian Clearing Union (ACU). (NOTE: As discussed in Ref B, the ACU was established 1975 with eight members --Bangladesh, Bhutan, India, Iran, Myanmar, Nepal, Pakistan, and Sri Lanka - with a mandate that members banks carry floats of each other's currencies and manually settle accounts every two months. END NOTE.) He revealed that during his trip to Iran in 2008, Indian exporters complained of "administrative bottlenecks" slowing down transactions between Indian and Iranian businesses. He lamented that Indian exporters especially were hit hard as they could not receive payments in USD from Iranian importers. (NOTE: Kalantri is most likely referring to the restriction by the U.S. Office of Foreign Assets Control of all USD transactions, directly or indirectly, involving Iranian banks and companies as well as the settlement of third-country trade transactions. Indian businessmen have complained on various on-line trade blogs and message boards about this complication in financial transactions. End NOTE)

¶11. (SBU) In order to resolve the problems that these exporters were facing, the Reserve Bank of India (RBI) published a circular in January 2009 announcing that the ACU participants would have the option to settle their transaction either in ACU dollars (equivalent to one U.S. Dollar) or ACU Euros (equivalent to one euro), allowing Indian importers and exporters to legally and effectively side-step the U.S. ban on making payments to Iranian exporters and receive payments from Iranian importers. This will also allow authorized banks in India to open and maintain ACU Dollar and ACU Euro account with their correspondent banks in other participating countries, like Iran.

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¶12. (C) Comment: Small and medium sized trade companies in Mumbai are clearly eager to exploit the Iranian market, and bilateral trade is small, but growing. Indian goods are becoming more popular in Iran, as more and more Iranians are traveling to India for work, study, and tourism. At the same time, Indian demand, although reactive to the inflating costs of Iranian goods, remains strong for certain imports to which they have been accustomed. Thus, while the increasing desire to trade with Iran is encouraging Indian business to find ways around sanctions and other obstacles, it will be interesting to see if Indian financial institutions continue to support the exploitation of loopholes found in the guaranteeing of LoCs another financing mechanism. End Comment.

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